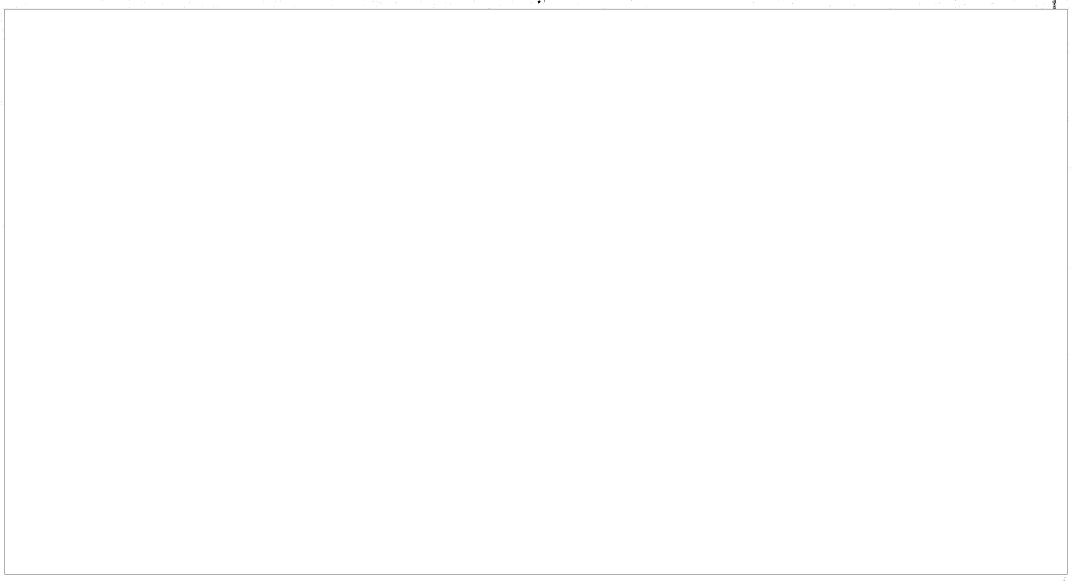

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Several Fundamental Problems Concerning

The Estimates of Capital for China Industry

China Industry, Wang Fu-sun, Shanghai, 20 Dec 1949

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SEVERAL FUNDAMENTAL PROBLEMS CONCERNING THE ESTIMATES OF CAPITAL FOR CHINESE INDUSTRY

By

Wang Fu-sun

This article was inspired by the very creative article in a former issue of this magazine on the subject of "Initial Estimates of Capital in Chinese Industries" by Mr. Wu Ch'eng-ming.

This article may be considered a slight additional contribution to the discussion. The three questions discussed here are (1) the question of the Comparative Value of Capital and Capital Production, (2) the Question of the Determination of the Rate of Capital Turnover, and (3) The Determination of the Rate of Profit.

Present-day Chinese industrial capital statistics consist largely of original investment figures or stock capital. In order to estimate working capital, it is necessary to include not only investment capital, but also borrowed capital and accumulated capital. This is true of both regular and special industries. These three, according to Mr. Wu can be included as total present capital assets. From this, he argues that to find the actual working capital one should determine the percentage comparison of original (stock) capital with captial assets and multiply the original capital by the percentage to arrive at the actual figure for working capital (Yun-yung-tzu).

Where does one locate the total assets of a factory? Mr. Wu says they will be found in the assets section of its statement of assets and

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liabilities. However, this use of the total item of capital assets shown in the statement of assets and liabilities to represent actual working capital seems to us to be too high a figure for working capital. In the statement, outside long term investments and short term accomodation bills (yung-tzu) are shown as capital assets, but these cannot possibly be considered actual working capital, for they make up too much of the value of assets shown in the statement. In the cases of 92 factories surveyed, the highest figure reached was 82 percent. If the difference tween assets and the figure of the outside investments and short term bills be used to represent the actual working capital, the actual working capital of the 92 factories surveyed would not average twice the original investment. Hence, Mr. Wu's estimates of industrial capital must be reduced by 30 percent in order to be in line with the actual conditions [as revealed in Wang's survey].

From another viewpoint, figures on assets in statements can easily be low as compared with capital, since treasurers have a habit of lowering estimates of assets, whether from a policy of stable financing or to hide profits or avoid taxes. While Mr. Wu has mentioned this, additions can be made to his observation. The figure for capital stock in the statement usually is not the orignal investment figure, especially in the case of old established plants. Their annual accumulation of capital and their surplus revolving fund partake of the nature of profit capital. They are all classed under capital stock. In most cases, the comparison between the original capital investment in an enterprise and the yearly capital assets figure should show a rise. Unless the

annual figure for original investment includes the annual increase of capital and revolving fund, the figure revealed in the statement of assets and liabilities will be less than it should be.

In the matter of the second problem, the rate of turnover of floating capital, Mr. Wu's conclusion was that the average rate of turnover of raw materials capital was fout times annually. A check of 15 shops out of the total 92 mentioned above revealed a great divergence as between shops, running from two turnover a year to 28. Textile mills revealed the highest rate of turnover. The resulting seemingly too high turnover rate for the whole group probably arises from a fallacy of considering the beginning and closing inventories of raw materials as representative of the average inventory throughout the year. At the end of the fiscal year, the figures for the periodic cash turnover is required to be exact. However, it is usual at this time for the raw materials inventory to be smaller than the average inventory. This situation is particularly apparent in the case of high production plants with fairly uncomplicated raw materials where they are bought in large quantitites and where the control can be comparatively definite. It is particularly apparent in the case of textile plants. Hence in such plants the deviation toward the high side of the norm is particularly noticeable.

With regard to the problem of determining industrial profit, Mr. Wu's estimate was an average of 12 percent. Figures based on investigation of the 92 shops mentioned above brought a result very clse to Mr. Wu's estimate. Seventy-four shops showed a profit, 12 shops showed

losses and six did not reveal a clear picture; hence were not considered in the reckoning. Several reasons for the apparent loss of the 12 shops might be assigned, such as a conservative business policy under-valuing assets to hide profits. In such cases, the loss was only apparent, not real. In other cases the loss may have been due to competition. Considering the enterprises under review to be representative of China's industries, the result indicates that the average industrial profit in China is 13.7 percent.

Finally in order for capital to be most efficiently applied to industry, it must have a frequent turnover. Only from watching the movement of capital may the trend be noted. Thus, any year's estimate of China's industrial capital can only be considered an average. One cannot expect to pin down a definite figure for working capital on any given day or for any givenmonth.